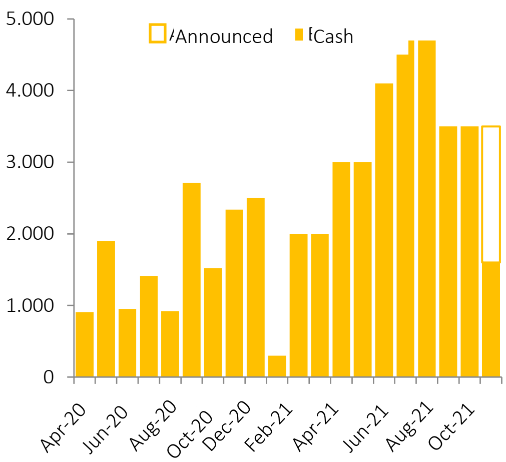
Local financial assets lose ground again ahead of next Sunday's elections

Pessimism has once again dominated the markets. The IPSA -the main stock market indicator- had a loss of 5% in the week, closing at 4,263 points. The foregoing, although it was in line with the unfavorable performance of the international stock markets, was also pressured by the selling position of institutional investors and the uncertainty surrounding the presidential and parliamentary elections next Sunday, November 21. After several weeks where the presidential polls showed that José Antonio Kast shortened - and even surpassed - Gabriel Boric, after the last debate the mood of the markets changed and a new period of volatility was generated in the prices of financial assets.

Along with the fall in the stock market, the peso also exhibited a meager performance, depreciating 4% in the week ($ 834 per dollar at the close). This weakening is explained by several factors, including a fall in the price of copper (-2%), the rise in the dollar globally (DXY: + 0.9%) due to the possibility that the Fed will advance the withdrawal of its stimuli, the lower flow of foreign currency sales due to the interruption of the daily settlements of the Ministry of Finance and, also, due to the scenario of greater local political uncertainty.

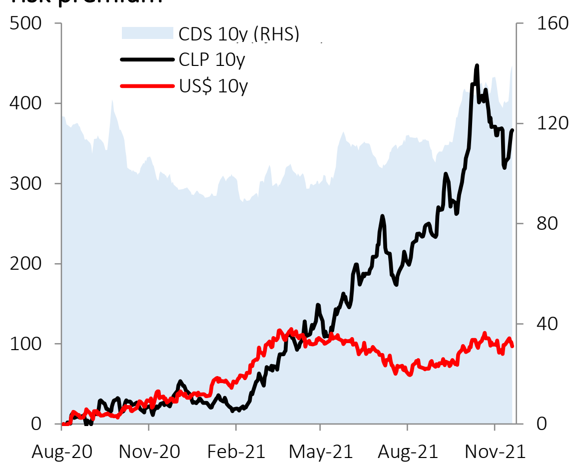
Sovereign bonds also showed falls. Long-term interest rates rose +39 bp, once again exceeding 6% in the case of BTP10 and 2.3% for BTU10. A moderate increase in international rates, the higher premium for country risk (CDS 10y: +15 bp) and the confirmation of the economic recovery after the GDP figures for the third quarter would be the main factors behind this trend. This occurs in the context of the postponement, until after the elections, of the legislative discussion on the fourth withdrawal of pension funds.

The Ministry of Finance interrupts the foreign currency sales



Source: Ministry of Finance and Santander

Long term rates increase due to greater country risk premium



Source: Central Bank, Bloomberg and Santander

Third quarter GDP confirms high dynamism in activity, driven by consumption

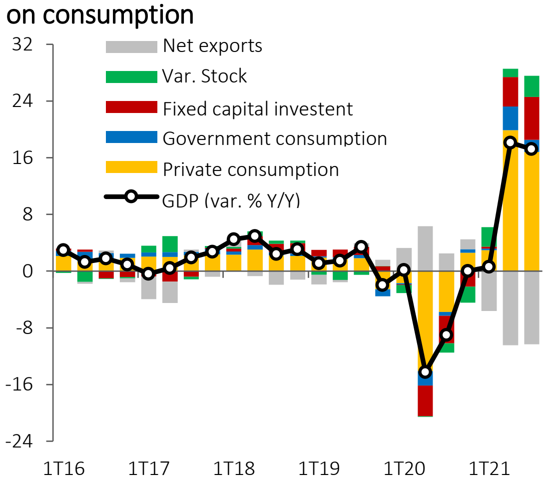
GDP growth in the third quarter (17.2%) was somewhat lower than that implicit in the Imacec (17.6%), although it confirmed the strong quarterly recovery (4.9%) due to better sanitary conditions and strong dynamism of domestic demand. The significant acceleration in the consumption of non-durable goods (10.4% QoQ) and of services (12% QoQ) stood out, with which their levels reached their trend trajectories. Both components benefited from the relaxation of social distancing measures in the quarter and the abundant liquidity of households as a result of the third withdrawal of pension funds and the universal IFE.

Capital formation also showed greater dynamism, driven by both machinery and equipment (15.1% QoQ), and construction (+ 10% QoQ). This last component had a significant recovery, which allowed it to return to its pre-pandemic levels. Thus, despite the uncertainty of the political scenario, investment has performed well. Going forward, the cadastre of projects of the Capital Goods Corporation (CBC) for the third quarter, released this week, showed that for the period 2021-2025 there is still a very relevant amount of projects (mainly in mining and public works), that could total US $ 69,755 million (+ 14.2% compared to the previous cadastre).

The external sector had a negative impact on the performance of the third quarter. Imports maintained a high dynamism (38% YoY and 5.5% QoQ), widely exceeding exports, which expanded only 1.7% YoY, despite the low comparison bases.

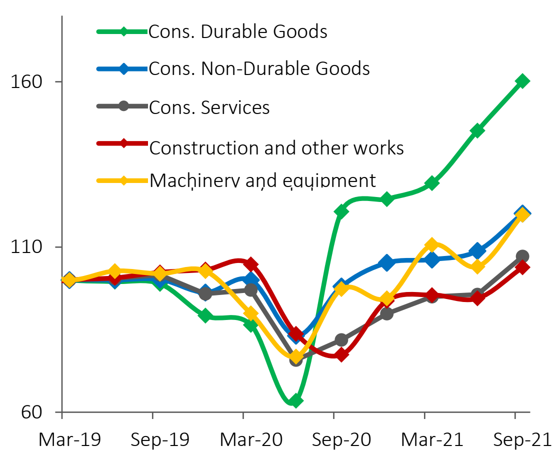
With these results, we maintain our growth estimate for this year at 12%. The foregoing considers a lower expansion in the fourth quarter, due to more demanding comparison bases and a moderation in consumption.

GDP growth continues to be highly leveraged on consumption



Source: BCCh and Santander

Deconfinement and abundant liquidity drive strong growth in services



Seasonally adjusted series (1Q19 = 100)
Source: BCCh and Santander

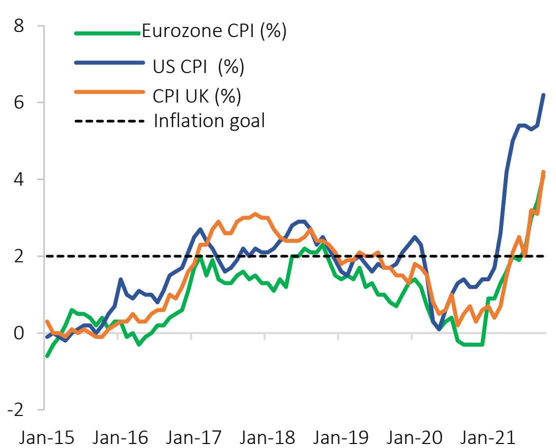
Debate over the persistence of global inflation

The markets' concern has been centered on inflationary pressures and uncertainty regarding what - and when - the main central banks will do to contain it. In the United States, on the rise in prices, there is also the discussion about whether or not Jerome Powell will be ratified at the head of the Fed, and the debate in Congress regarding spending plans and the increase in the ceiling of the debt. In the United Kingdom, meanwhile, the first rate movement is already expected on December 16, in line with the bias of the last meeting, which was reinforced this week by a high CPI (1.1% m / m vs. 0.8% expected), which brought annual inflation to 4.2% in October. On the other hand, the president of the European Central Bank (ECB), Christine Lagarde, has insisted that the inflationary phenomenon is of a transitory nature, reinforcing the idea that said institution will keep the reference rate unchanged in the short term.

The economic figures in the US showed the growth in activity in October (retail sales: 1.7% m / m vs. 1.4% expected; industrial production: 1.6% m / m vs. 0, 9% expected) and the strengthening of the labor market, with initial jobless claims continuing below 300,000 for the sixth consecutive week. In China, there was a rebound in retail sales (4.9% vs. 3.7% expected) and industrial production (3.5% vs. 3.0% expected) in October, a sign that was offset by falls of between 20% and 30% in construction and sales of new homes, highlighting the weakness of the real estate sector and maintaining caution regarding the expected slowdown in the Asian giant for the last quarter of the year.

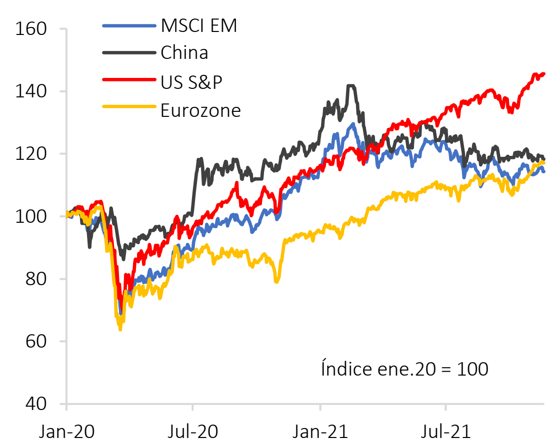
With this, the main stock market indices closed the week with mixed variations (MSCI global: + 0.1%). The fall in the Latin American region (-4.8%) - led by Argentina (-5.7%), after the weekend's parliamentary elections in which the ruling party lost the majority in the Senate - and the emerging position (- 0.9%), with China registering setbacks in recent days and affecting the price of relevant raw materials for Chile (copper: -2%; WTI oil: -4%). The US stock market (S&P 500: + 0.5%), meanwhile, exhibited slight increases. All in all, the global dollar moderated the rise it had after the surprise CPI data in the US and registered a 0.9% strengthening compared to last Friday, in a context of greater risk aversion (VIX: +2 points).

Inflation is one of the main concerns in the global markets



Source: Bloomberg and Santander

Mixed performance of the international exchanges in the week



Source: Bloomberg and Santander